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Emrise CORP
Form 8-K/A
June 17, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO
FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) MARCH 18, 2005

EMRISE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

001-10346

77-0226211

(State or other jurisdiction
of incorporation)

(Commission
File Number)

(IRS Employer
Identification No.)

9485 HAVEN AVENUE, SUITE 100, RANCHO CUCAMONGA, CALIFORNIA 91730

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (909) 987-9220

NOT APPLICABLE

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (SEE General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

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On March 1, 2005, Emrise Corporation ("Emrise") and XCEL Corporation Limited, a second-tier wholly-owned subsidiary of Emrise ("XCEL"), entered into an agreement ("Purchase Agreement") to acquire all of the issued and outstanding capital stock of Pascall Electronic (Holdings) Limited ("PEHL"). The closing of the purchase occurred on March 18, 2005. Emrise loaned to XCEL the funds that XCEL used to purchase PEHL. PEHL has one wholly-owned subsidiary, Pascall Electronics Limited ("Pascall"), which produces, designs, develops, manufactures and sells power supplies and radio frequency products for a broad range of applications, including in-flight entertainment systems and military programs.

Under the Purchase Agreement, XCEL purchased all of the outstanding capital stock of PEHL, using funds loaned to XCEL by Emrise. The purchase price for the acquisition totaled \$9,669,000, subject to adjustments as described below, and included a \$5,972,000 cash payment to PEHL's former parent, a \$3,082,000 loan to PEHL and Pascall and approximately \$615,000 in acquisition costs, as described below.

The initial portion of the purchase price was 3,100,000 British pounds sterling (approximately U.S. \$5,972,000 based on the exchange rate in effect on March 18, 2005). The initial portion of the purchase price was paid in cash at the closing and is subject to upward or downward adjustment on a pound for pound basis to the extent that the value of the net assets of Pascall as of the closing date was greater or less than 2,520,000 British pounds sterling.

On May 6, 2005, Emrise submitted to Intelek Properties Limited (which is a subsidiary of Intelek plc, a London Stock Exchange public limited company, and is the former parent of PEHL), Emrise's calculation of the value of the net assets of Pascall as of the closing date, which Emrise believes slightly exceeded 2,520,000 British pounds sterling. Intelek Properties Limited has indicated that its own calculation exceeds Emrise's calculation by approximately 100,000 British pounds sterling (approximately U.S. \$193,000 based on the exchange rate in effect on March 18, 2005). Emrise is working to resolve this discrepancy. Any payment relating to the increase or reduction of the purchase price based on the value of the net assets of Pascall will be due from XCEL or Intelek Properties Limited, as the case may be, within 14 days of the acceptance of the calculation. A default rate of interest equal to 3% above the base lending rate of Barclays Bank plc London will apply if the adjustment payment is not timely made. However, Emrise anticipates that any adjustment payment based on this calculation will not be material to Emrise's financial results and that it will be timely made. The purchase price is also subject to downward adjustments for any payments that may be made to XCEL under indemnity, tax or warranty provisions of the Purchase Agreement.

XCEL loaned to PEHL and Pascall at the closing 1,600,000 British pounds sterling (approximately U.S. \$3,082,000 based on the exchange rate in effect on March 18, 2005) in accordance with the terms of a Loan Agreement entered into by those entities at the closing. The loaned funds were used to immediately repay outstanding intercompany debt owed by PEHL and Pascall to Intelek Properties Limited.

Emrise and Intelek plc have agreed to guarantee payment when due of all amounts payable by XCEL and Intelek Properties Limited, respectively, under the Purchase Agreement. Emrise and XCEL agreed to seek to replace the guaranty that Intelek Properties Limited has given to Pascall's landlord with a guaranty by Emrise, and XCEL has agreed to indemnify Intelek Properties Limited and its affiliates for damages they suffer as a result of any failure to obtain the release of the guarantee of the 17-year lease that commenced in May 1999. The leased property is a 30,000 square foot administration, engineering and manufacturing facility located off the south coast of England.

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Intelek Properties Limited has agreed to various restrictive covenants that apply for various periods following the closing. The covenants include non-competition with Pascall's business, non-interference with Pascall's customers and suppliers, and non-solicitation of Pascall's employees. In conjunction with the closing, Intelek Properties Limited, Intelek plc, XCEL, and Emrise entered into a Supplemental Agreement dated March 18, 2005. The Supplemental Agreement provides, among other things, that an interest-free bridge loan of 200,000 British pounds sterling (approximately U.S. \$385,000 based on the exchange rate in effect on March 17, 2005) that was made by Intelek Properties Limited to Pascall on March 17, 2005 would be repaid by Pascall by March 31, 2005. XCEL agreed to ensure that Pascall had sufficient funds to repay the bridge loan. The bridge loan was repaid in full by Pascall on the March 31, 2005 due date.

The following table summarizes the unaudited assets acquired and liabilities assumed in connection with this acquisition, including \$615,000 in acquisition costs:

| | Dollars in Thousands ----- |
|--------------------------------------|----------------------------------|
| Current assets..... | \$ 6,196 |
| Property, plant and equipment..... | 1,367 |
| Intangibles, including goodwill..... | 4,721 |
| | ----- |
| Total assets acquired..... | 12,284 |
| Current liabilities..... | 2,535 |
| Other liabilities..... | 80 |
| | ----- |
| Total liabilities assumed..... | 2,615 |
| | ----- |
| Net assets acquired..... | \$ 9,669 |
| | ===== |

The purchase price represented a significant premium over the recorded net worth of Pascall's assets. In determining to pay this premium, we considered various factors, including the opportunities that Pascall presented for us to add radiofrequency ("RF") components and RF subsystem assemblies to our product offerings, the marketing resources of Pascall in the United States power supplies market, and expected synergies between Pascall's business and our existing power supplies business.

In conjunction with the acquisition of Pascall, Emrise has selected a valuation firm to determine what portion of the purchase price should be allocated to identifiable intangible assets. The Company has considered whether the acquisition included various types of identifiable intangible assets, including trade names, trademarks, patents, covenants not to compete, customers, workforce, technology and software. Emrise has estimated that the Pascall trade name and trademark are valued at \$50,000. Emrise has estimated that the covenants not to compete that were obtained from Pascall's former affiliates are valued at \$100,000 in light of public statements made by those affiliates indicating that they were strategically exiting the power supply business, which Emrise believes result in a low probability that they would return to the power supply business absent the covenants not to compete. Emrise believes that no other identifiable intangible assets of significant value were acquired. The Company has not ascribed any value to Pascall's customer base because Emrise's United Kingdom subsidiary, XCEL Power Systems, Ltd., already sells to Pascall's key customers. Pascall's workforce does not hold any special skills that are not

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readily available from other sources. Emrise did not identify any valuable completed technology that was acquired, because Pascall utilizes non-proprietary technology to produce custom power supplies pursuant to customer specifications. Pascall does not develop or design software and does not own software of any material value.

Accordingly, Emrise has estimated that the goodwill associated with the Pascall acquisition totaled \$4,571,000. The Pascall trade name and trademark were determined to have indefinite lives and therefore are not being amortized but rather are being periodically tested for impairment. The covenants not to compete will be amortized over their three-year duration. The valuation of the identified intangible assets is expected to be completed during the quarter ending September 30, 2005 and could result in changes to the value of these identified intangible assets and corresponding changes to the value of goodwill. However, Emrise does not believe these changes will be material to its financial position or results of operations.

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ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired.

The following financial statements of PEHL and its subsidiary are included in this report:

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| Report of Independent Auditors..... | F-1 |
| Consolidated Profit and Loss Account for the Period Ended 18 March 2005 and for the Twelve Months Ended 31 March 2004..... | F-2 |
| Consolidated Balance Sheet at 18 March 2005 and 31 March 2004..... | F-3 |
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| Consolidated Cash Flow Statement for the Period Ended 18 March 2005 and for the Twelve Months Ended 31 March 2004..... | F-5 |
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REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF PASCALL ELECTRONIC (HOLDINGS) LIMITED

We have audited the consolidated balance sheets and the company balance sheets of Pascall Electronic (Holdings) Limited as at 18 March 2005 and 31 March 2004 and the consolidated profit and loss accounts and consolidated cash flows for the period from 1 April 2004 to 18 March 2005 and for the year ended 31 March

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2004. These financial statements are the responsibility of Pascall Electronic (Holdings) Limited's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pascall Electronic (Holdings) Limited as at 18 March 2005 and 31 March 2004 and the results of its operations and its cash flows for the period from 1 April 2004 to 18 March 2005 and for the year ended 31 March 2004 in conformity with generally accepted accounting principles in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 29 to the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Northampton, England
26 May 2005

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | PERIOD ENDED 18 MARCH 2005 (POUNDS) | YEAR ENDED 31 MARCH 2004 (POUNDS) |
|---------------|------|--|--|
| | NOTE | | |
| TURNOVER | 2 | 5,577,648 | 6,650,278 |
| Cost of sales | | (4,864,212) | (5,642,113) |
| | | ----- | ----- |
| GROSS PROFIT | | 713,436 | 1,008,165 |
| | | ----- | ----- |

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| | | | |
|---|----|-------------|-------------|
| Administrative expenses (including an exceptional charge of (pounds)241,976 - see Note 4) | | (712,958) | (707,735) |
| Distribution costs | | (591,262) | (454,760) |
| Other operating income | 3 | 108,880 | 120,972 |
| | | ----- | ----- |
| | | (1,195,340) | (1,041,523) |
| | | ----- | ----- |
| OPERATING LOSS | 4 | (481,904) | (33,358) |
| Exceptional item-gain on disposal of dormant subsidiaries | 5 | 315,686 | -- |
| | | ----- | ----- |
| LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION | | (166,218) | (33,358) |
| Bank interest | | (59,344) | (37,369) |
| | | ----- | ----- |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (225,562) | (70,727) |
| Tax on loss on ordinary activities | 7 | 191,623 | 44,944 |
| | | | |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | (33,939) | (25,783) |
| Equity dividends | 9 | -- | (39,000) |
| | | ----- | ----- |
| RETAINED LOSS FOR THE PERIOD | 19 | (33,939) | (64,783) |
| | | ===== | ===== |

All of the activities of the group are classed as continuing.

There were no recognised gains or losses other than the loss for the financial period.

The accompanying accounting policies and notes form an integral part of these financial statements.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED BALANCE SHEET

| | NOTE | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|--------------------------|------|------------------------------|------------------------------|
| FIXED ASSETS | | | |
| Tangible assets | 10 | 709,719 | 810,007 |
| | | ----- | ----- |
| CURRENT ASSETS | | | |
| Stocks | 12 | 1,451,595 | 1,013,377 |
| Debtors | 13 | 1,871,930 | 1,782,160 |
| Cash at bank and in hand | | 170,150 | 475,767 |
| | | ----- | ----- |

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| | | | |
|---|----|--------------------------|--------------------------|
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 14 | 3,493,675 (3,395,842) | 3,271,304 (3,220,309) |
| NET CURRENT ASSETS | | 97,833 | 50,995 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 807,552 | 861,002 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 15 | (20,219) | (39,730) |
| NET ASSETS | | 787,333 | 821,272 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 17 | 364,711 | 364,711 |
| Share premium account | 18 | 68,856 | 68,856 |
| Capital redemption reserve | 18 | 312,714 | 312,714 |
| Profit and loss account | 18 | 41,052 | 74,991 |
| SHAREHOLDERS' FUNDS | 19 | 787,333 | 821,272 |
| Equity | | 647,013 | 680,952 |
| Non-equity | | 140,320 | 140,320 |
| | | 787,333 | 821,272 |

The financial statements were approved by the Board of Directors on 26 May 2005.

Director: Carmine T. Oliva.

The accompanying accounting policies and notes form an integral part of these financial statements.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED (PARENT COMPANY ONLY)

BALANCE SHEET

| | | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|----------------|------|------------------------------|------------------------------|
| | NOTE | | |
| FIXED ASSETS | | | |
| Investments | 11 | 746,499 | 585,548 |
| CURRENT ASSETS | | | |
| Debtors | 13 | -- | 759,703 |

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| | | | |
|--|----|---------|-----------|
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 14 | -- | (598,970) |
| | | ----- | ----- |
| NET CURRENT ASSETS | | -- | 160,733 |
| | | ----- | ----- |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 746,499 | 746,281 |
| | | ===== | ===== |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 17 | 364,711 | 364,711 |
| Share premium account | 18 | 68,856 | 68,856 |
| Capital redemption reserve | 18 | 312,714 | 312,714 |
| Profit and loss account | 18 | 218 | -- |
| | | ----- | ----- |
| SHAREHOLDERS' FUNDS | | 746,499 | 746,281 |
| | | ===== | ===== |
| Equity | | 606,179 | 605,961 |
| Non-equity | | 140,320 | 140,320 |
| | | ----- | ----- |
| | | 746,499 | 746,281 |
| | | ===== | ===== |

The financial statements were approved by the Board of Directors on 26 May 2005.

Director: Carmine T. Oliva.

The accompanying accounting policies and notes form an integral part of these financial statements.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED CASH FLOW STATEMENT

| | NOTE | PERIOD ENDED 18 MARCH 2005 (POUNDS) | YEAR ENDED 31 MARCH 2004 (POUNDS) |
|--|------|--|--|
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | 20 | 360,759 | (233,832) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest paid | | (61,868) | (35,613) |
| | | ----- | ----- |
| NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | (61,868) | (35,613) |
| | | ----- | ----- |
| TAXATION | | 20 | 149,858 |

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| | | | |
|--|----|-----------|-----------|
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Purchase of tangible fixed assets | | (183,488) | (84,542) |
| Sale of tangible fixed assets | | 39,657 | 62,433 |
| | | ----- | ----- |
| NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| | | (143,831) | (22,109) |
| | | ----- | ----- |
| ACQUISITIONS AND DISPOSALS | | | |
| Sale of subsidiary undertakings | | 76,000 | -- |
| | | ----- | ----- |
| NET CASH INFLOW FROM ACQUISITIONS AND DISPOSALS | | | |
| | | 76,000 | -- |
| | | ----- | ----- |
| EQUITY DIVIDENDS PAID | | | |
| | | (39,000) | -- |
| FINANCING | | | |
| Capital elements of finance lease rentals | | (41,544) | (36,073) |
| | | ----- | ----- |
| NET CASH OUTFLOW FROM FINANCING | | | |
| | | (41,544) | (36,073) |
| | | ----- | ----- |
| INCREASE/(DECREASE) IN CASH | 21 | 150,536 | (177,769) |
| | | ===== | ===== |

The accompanying accounting policies and notes form an integral part of these financial statements.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

1. PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements are prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention. During the latest period presented, the company changed its fiscal year end to 18 March from 31 March.

The principal accounting policies of the group are set out below. The policies have remained unchanged from the previous year.

BASIS OF CONSOLIDATION

The "group" financial statements consolidated those of the company, being Pascall Electronic (Holdings) Limited, and its subsidiary undertaking (see Note 11) drawn up to 18 March 2005. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

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GOODWILL

Goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life. Negative goodwill is written back to the profit and loss account to match the recovery of the non-monetary assets acquired.

As a matter of accounting policy, purchased goodwill first accounted for in accounting periods ending before 23 December 1998, the implementation date of Financial Reporting Standard No 10, was eliminated from the financial statements by immediate write-off on acquisition against reserves. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

TURNOVER

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied in the period.

RESEARCH AND DEVELOPMENT

Research and development expenditure is written off in the period in which it is incurred.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their useful economic lives. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. The principal annual rates used are as follows:

| | | |
|--------------------------|---------------|------------------|
| Short leasehold property | life of lease | |
| Plant and machinery | 10%-25% | Straight line |
| Motor vehicles | 25% | Reducing balance |

STOCKS AND WORK IN PROGRESS

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. The cost of work in progress and finished goods comprises materials, direct labour and attributable production overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

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DEFERRED TAXATION

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date; and
- b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged at the forward contract rate. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date, or if hedged the forward contract rate. All exchange differences are recognised in the profit and loss account.

GOVERNMENT GRANTS

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned.

Other grants are credited to the profit and loss account in the same year as the expenditure to which they contribute.

LEASED ASSETS

Fixed assets subject to finance leases are capitalised and depreciated in accordance with the depreciation policy stated above. The corresponding liability for the capital element is included in creditors, and the interest, calculated on a straight line basis, is charged against profits over the period of the lease. The rental and

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operating lease costs of all other assets are charged against profit before interest, as incurred.

RETIREMENT BENEFITS

DEFINED CONTRIBUTION PENSION SCHEME

The pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

DEFINED BENEFIT PENSION SCHEME

Pascall Electronics Limited, the trading subsidiary of Pascall Electronic (Holdings) Limited, participated in the Inteltek plc Group Defined Benefit Pension Scheme.

Prior to the cessation of Pascall Electronics Limited's participation in the Inteltek plc Group Defined Benefit Pension Scheme on 18 March 2005, in accordance with SSAP 24, contributions to the scheme were charged to profits on the recommendation of a qualified actuary using the defined accrued benefit method so as to spread the cost of pensions over the anticipated service lives of scheme members. Deferred tax is fully accounted for on any difference between accumulated pension costs charged against profits and accumulated contributions paid.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

2. TURNOVER BY GEOGRAPHICAL MARKET

Turnover is wholly attributable to the principal activity of the group.

An analysis of turnover by geographical market is given below:

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|-----------------------------------|---|--|
| European Community (excluding UK) | 153,147 | 157,703 |
| Rest of Europe | -- | 5,964 |
| North America | 3,405,990 | 4,797,849 |
| South America | 235 | 21,620 |
| Asia | 716,695 | 846,371 |
| Africa | 27,486 | 13,249 |
| | ----- | ----- |
| Export sales | 4,303,553 | 5,842,756 |
| United Kingdom | 1,274,095 | 807,522 |
| | ----- | ----- |
| | 5,577,648 | 6,650,278 |
| | ===== | ===== |

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3. OTHER OPERATING INCOME

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|---------------|---|--|
| Rental income | 87,662 | 99,972 |
| DTI Grant | 21,000 | 21,000 |
| Other | 218 | -- |
| | ----- | ----- |
| | 108,880 | 120,972 |
| | ===== | ===== |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

4. OPERATING LOSS

The operating loss is arrived at after charging/(crediting):

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|---|---|--|
| Depreciation of tangible fixed assets | 283,131 | 287,038 |
| Auditors' remuneration - audit services | 23,669 | 9,500 |
| Research and development | 645,125 | 641,000 |
| Operating lease rentals | | |
| - plant and machinery | 9,231 | 9,662 |
| - land and buildings | 331,557 | 313,625 |
| Loss on sale of fixed assets | 2,628 | 20,044 |
| Deferred income from Government Grants | (21,000) | (21,000) |
| Exceptional item - write-off of pension prepayment | 241,976 | -- |
| | ===== | ===== |

On 18 March 2005 the company ceased its participation in the Intelek plc group pension scheme. As a result the company no longer participates in a defined benefit pension scheme.

Accordingly, the SSAP 24 prepayment amounting to (pounds)241,976 recognised in the prior year accounts has been charged to the profit and loss account through administrative expenses as an exceptional item for the period ended 18 March 2005. The related deferred tax liability of (pounds)72,593 has been released to the profit and loss account.

5. EXCEPTIONAL ITEMS

On 22 February 2005 the subsidiary undertaking, Pascall Microwave

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Limited, was sold for consideration of (pounds)1 to the ultimate parent undertaking at that time, being Intelek plc. The gain arising on disposal amounted to (pounds)315,685.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

6. DIRECTORS AND EMPLOYEES

The average number of staff employed by the group during the period, including directors was:

| | PERIOD ENDED 18 MARCH 2005 | TWELVE MONTHS ENDED 31 MARCH 2004 |
|--------------------------|-------------------------------------|--|
| Production and ancillary | 92 | 93 |
| Administration and sales | 16 | 15 |
| | ----- | ----- |
| | 108 | 108 |
| | ===== | ===== |

Staff costs during the period were as follows:

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|-----------------------|---|--|
| Wages and salaries | 2,277,533 | 2,264,745 |
| Social security costs | 212,066 | 212,786 |
| Other pension costs | 338,082 | 101,734 |
| | ----- | ----- |
| | 2,827,681 | 2,579,265 |
| | ===== | ===== |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

6. DIRECTORS AND EMPLOYEES (CONTINUED)

Remuneration in respect of directors was as follows:

| PERIOD | TWELVE MONTHS |
|--------|---------------|
|--------|---------------|

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| | ENDED 18 MARCH 2005 (POUNDS) | ENDED 31 MARCH 2004 (POUNDS) |
|--|---------------------------------------|---------------------------------------|
| Emoluments | 211,010 | 221,186 |
| Pension contributions to money purchase schemes | 12,667 ----- | 11,795 ----- |
| | 223,677 ===== | 232,981 ===== |

The emoluments of the highest paid director excluding pension contributions were (pounds)76,122 (2004: (pounds)96,502).

Pension contributions for the highest paid director were (pounds)4,106 (2004: (pounds)5,055).

There were two directors accruing benefits under a money purchase scheme (2004: 6).

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

(a) Analysis of charge in the period

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|--|---|---|
| CURRENT TAX: | | |
| UK corporation tax based at 30% (2004: 30%) | -- | -- |
| Adjustment in respect of prior year | -- | (66,808) |
| Group relief | | |
| Adjustment in respect of prior year | -- ----- | 32,055 ----- |
| Total current tax | -- | (34,753) |
| DEFERRED TAXATION: | | |
| Origination and reversal of timing differences | (191,623) ----- | (10,191) ----- |
| Taxation on loss on ordinary activities | (191,623) ===== | (44,944) ===== |

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Unrelieved tax losses of (pounds)240,000 remain available to offset against future taxable trading profits.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained as follows:

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|---|---|--|
| Loss on ordinary activities before taxation | (225,562) ===== | (70,727) ===== |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%) | (67,669) | (21,218) |
| Effects of: | | |
| Research and development tax credit | (33,856) | (22,780) |
| Expenses not deductible for tax purposes | 76,525 | 5,081 |
| Non taxable gains on disposal of dormant subsidiaries | (94,706) | -- |
| Capital allowances in excess of depreciation | 14,881 | 14,858 |
| Creation of tax losses | 72,167 | -- |
| Other timing differences | 32,658 | 18,739 |
| Group losses not paid for | -- | 5,320 |
| Adjustments in respect of prior years | -- | (34,753) |
| | ----- | ----- |
| Total current tax (note 7(a)) | -- ===== | (34,753) ===== |

8. PROFIT FOR THE FINANCIAL YEAR

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was (pounds)218 (2004: (pounds)Nil).

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

9. DIVIDENDS

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|---|---|---|
| Equity dividends: | | |
| Ordinary shares - proposed final dividend | | |
| of Nil per share (2004: 17.38p) | -- | 39,000 |
| | ===== | ===== |

10. TANGIBLE FIXED ASSETS

| | SHORT LEASEHOLD LAND AND BUILDINGS (POUNDS) | PLANT AND MACHINERY (POUNDS) | MOTOR VEHICLES (POUNDS) | TOTAL (POUNDS) |
|-----------------------|---|------------------------------------|-------------------------------|-------------------|
| THE GROUP COST | | | | |
| At 1 April 2004 | 251,477 | 3,278,730 | 85,949 | 3,616,156 |
| Additions | -- | 196,170 | 28,958 | 225,128 |
| Disposals | -- | (9,457) | (55,913) | (65,370) |
| | ----- | ----- | ----- | ----- |
| At 18 March 2005 | 251,477 | 3,465,443 | 58,994 | 3,775,914 |
| | ----- | ----- | ----- | ----- |
| DEPRECIATION | | | | |
| At 1 April 2004 | 94,473 | 2,683,423 | 28,253 | 2,806,149 |
| Charge for the period | 12,296 | 254,902 | 15,933 | 283,131 |
| Disposals | -- | -- | (23,085) | (23,085) |
| | ----- | ----- | ----- | ----- |
| At 18 March 2005 | 106,769 | 2,938,325 | 21,101 | 3,066,195 |
| | ----- | ----- | ----- | ----- |
| NET BOOK VALUE | | | | |
| At 18 March 2005 | 144,708 | 527,118 | 37,893 | 709,719 |
| | ===== | ===== | ===== | ===== |
| At 31 March 2004 | 157,004 | 595,307 | 57,696 | 810,007 |
| | ===== | ===== | ===== | ===== |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

10. TANGIBLE FIXED ASSETS (CONTINUED)

The figures stated above include assets held under finance leases and similar hire purchase contract as follows:

| | (POUNDS) |
|-------------------------------------|-----------------|
| Net book value at 18 March 2005 | 81,409 ===== |
| Net book value at 31 March 2004 | 84,666 ===== |
| Depreciation provided in the period | 31,257 ===== |

THE COMPANY

The company held no fixed assets at 18 March 2005 or 31 March 2004.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

11. FIXED ASSET INVESTMENTS

| | SHARES IN SUBSIDIARY UNDERTAKINGS (POUNDS) |
|------------------|---|
| THE COMPANY | |
| Cost | |
| At 1 April 2004 | 585,548 |
| Additions | 236,951 |
| Disposals | (76,000) ----- |
| At 18 March 2005 | 746,499 ===== |
| NET BOOK VALUE | |
| At 18 March 2005 | 746,499 ===== |
| At 31 March 2004 | 585,548 ===== |

At 18 March 2005 the company held more than 20% of the allotted share

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capital of the following subsidiary undertaking:

| SUBSIDIARY UNDERTAKING | CLASS OF SHARE CAPITAL HELD | PROPORTION HELD BY COMPANY | NATURE OF BUSINESS |
|--------------------------------|--------------------------------|----------------------------------|--|
| Pascall Electronics Limited | Ordinary | 100% | Design, development and manufacture of electronic instruments, components and sub systems |

The subsidiary undertaking is consolidated within these financial statements under the acquisition method of accounting.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

12. STOCKS

THE GROUP

| | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|-------------------------------------|---------------------------|---------------------------|
| Raw materials and consumables | 401,273 | 399,019 |
| Work in progress | 743,872 | 339,989 |
| Finished goods and goods for resale | 306,450 | 274,369 |
| | ----- | ----- |
| | 1,451,595 | 1,013,377 |
| | ===== | ===== |

THE COMPANY

The company had no stocks at 18 March 2005 or 31 March 2004.

13. DEBTORS

THE GROUP

| | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|------------------------------------|---------------------------|---------------------------|
| Trade debtors | 1,525,256 | 1,391,867 |
| Amounts owed by group undertakings | -- | -- |
| Other debtors | 21,421 | 14,142 |
| Prepayments and accrued income | 102,886 | 345,387 |
| Taxation recoverable | 26,153 | 26,173 |
| Deferred tax asset (Note 16) | 196,214 | 4,591 |
| | ----- | ----- |
| | 1,871,930 | 1,782,160 |

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Included in prepayments is a SSAP 24 pension prepayment of (pounds) Nil (2004: (pounds) 241,976).

THE COMPANY

| | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|------------------------------------|---------------------------|---------------------------|
| Amounts owed by group undertakings | -- | 759,703 |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| THE GROUP | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|------------------------------------|---------------------------|---------------------------|
| Bank overdrafts | 140,657 | 596,810 |
| Obligations under finance leases | 50,194 | 30,587 |
| Trade creditors | 846,251 | 789,836 |
| Amounts owed to group undertakings | 1,600,000 | 1,178,877 |
| Other taxation and social security | 129,809 | 128,054 |
| Other creditors | 7,848 | 2,983 |
| Proposed dividend | -- | 39,000 |
| Accruals and other deferred income | 621,083 | 454,162 |
| | ----- | ----- |
| | 3,395,842 | 3,220,309 |
| | ===== | ===== |

Amounts payable under finance leases and hire purchase contracts are secured upon the assets to which they relate.

THE COMPANY

| | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|------------------------------------|---------------------------|---------------------------|
| Amounts owed to group undertakings | -- | 598,970 |
| | ===== | ===== |

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| THE GROUP | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|----------------------------------|---------------------------|---------------------------|
| Obligations under finance leases | | |
| - one to two years | 20,219 | 39,730 |
| | ===== | ===== |

THE COMPANY

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The company had no liabilities due in greater than one year at 18 March 2005 or 31 March 2004.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

16. DEFERRED TAXATION

| THE GROUP | DEFERRED TAX ASSET (POUNDS) |
|------------------------|-----------------------------------|
| At 1 April 2004 | 4,591 |
| Reversed during period | 191,623 |
| | ----- |
| At 18 March 2005 | 196,214 |
| | ===== |

The deferred tax asset recognised in the financial statements is set out below:

| | 18 MARCH 2005 (POUNDS) | 31 MARCH 2004 (POUNDS) |
|--------------------------------|---------------------------|---------------------------|
| Accelerated capital allowances | 42,805 | 28,824 |
| Other timing differences | 81,243 | (26,263) |
| Losses | 72,166 | 2,030 |
| | ----- | ----- |
| | 196,214 | 4,591 |
| | ===== | ===== |

THE COMPANY

The company had no deferred tax assets or liabilities at 18 March 2005 or 31 March 2004.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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TWELVE MONTHS ENDED 31 MARCH 2004

17. SHARE CAPITAL

18 MARCH 2005 31 MARCH 2004

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| | (POUNDS) | (POUNDS) |
|--|----------|----------|
| AUTHORISED | | |
| 307,190 ordinary shares of (pounds)1 each | 307,190 | 307,190 |
| 215,250 9 1/2% redeemable convertible cumulative preference shares of (pounds)1 each | 215,250 | 215,250 |
| 300,640 10% non-cumulative preference shares of (pounds)1 each | 300,640 | 300,640 |
| | ----- | ----- |
| | 823,080 | 823,080 |
| | ===== | ===== |
| ALLOTTED, CALLED UP AND FULLY PAID | | |
| 224,391 ordinary shares of (pound)1 each | 224,391 | 224,391 |
| 140,320 10% non-cumulative preference shares of (pound)1 each | 140,320 | 140,320 |
| | ----- | ----- |
| | 364,711 | 364,711 |
| | ===== | ===== |

Rights of non-equity shareholders:

The holders of the 10% non-cumulative preference shares are entitled to be paid a fixed non-cumulative preferential dividend at the rate of 10% per annum out of the profits of the company resolved to be distributed in respect of that period.

On a winding up the holders of the 10% non-cumulative preference shares would have a right to receive out of the assets available for distribution, repayment in full of the nominal amount paid up on these preference shares in priority to all other shares of the company. There is no other right to participate in the profits or assets of the company under such circumstances.

The preference shares do not confer on the holders the right to receive notices of, or to attend or vote at, general meetings of the company unless a resolution for the winding up of the company shall be proposed and then only on such resolution.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

18. SHARE PREMIUM ACCOUNT AND RESERVES

| | SHARE PREMIUM ACCOUNT (POUNDS) | CAPITAL REDEMPTION RESERVE (POUNDS) | PROFIT AND LOSS ACCOUNT (POUNDS) |
|---------------------|---|--|---|
| THE GROUP | | | |
| At 1 April 2004 | 68,856 | 312,714 | 74,991 |
| Loss for the period | -- | -- | (33,939) |
| | ----- | ----- | ----- |
| At 18 March 2005 | 68,856 | 312,714 | 41,052 |
| | ===== | ===== | ===== |

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| THE COMPANY | SHARE PREMIUM ACCOUNT (POUNDS) | CAPITAL REDEMPTION RESERVE (POUNDS) | PROFIT AND LOSS ACCOUNT (POUNDS) |
|-----------------------|---|--|---|
| At 1 April 2004 | 68,856 | 312,714 | -- |
| Profit for the period | -- | -- | 218 |
| | ----- | ----- | ----- |
| At 18 March 2005 | 68,856 | 312,714 | 218 |
| | ===== | ===== | ===== |

The cumulative amount of goodwill arising from acquisitions accounted for in years ending before 23 December 1998 which has been written off to group reserves, net of goodwill charged or credited to the profit and loss account on subsequent disposal of the business to which it related is (pounds)280,797 (2004: (pounds)280,797).

The balance on the share premium account and capital redemption reserve may not be distributed legally under the Companies Act 1985.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|--------------------------------------|---|--|
| Loss for the financial period | (33,939) | (25,783) |
| Dividends | - | (39,000) |
| | ----- | ----- |
| Net decrease in shareholders' funds | (33,939) | (64,783) |
| Shareholders' funds at 1 April 2004 | 821,272 | 886,055 |
| | ----- | ----- |
| Shareholders' funds at 18 March 2005 | 787,333 | 821,272 |
| | ===== | ===== |

20. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

| PERIOD ENDED 18 MARCH 2005 | TWELVE MONTHS ENDED 31 MARCH 2004 |
|-------------------------------------|--|
|-------------------------------------|--|

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| | (POUNDS) | (POUNDS) |
|---|-----------|-----------|
| Operating loss | (481,904) | (33,358) |
| Depreciation | 283,131 | 287,038 |
| Profit on sale of fixed assets | 2,628 | 20,044 |
| (Increase)/decrease in stock | (438,218) | 126,596 |
| Decrease/(increase) in debtors | 341,519 | (379,651) |
| Increase/(decrease) in creditors | 653,603 | (254,501) |
| | ----- | ----- |
| Net cash inflow/(outflow) from operating activities | 360,759 | (233,832) |
| | ===== | ===== |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

21. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | TWELVE MONTHS ENDED 31 MARCH 2004 (POUNDS) |
|--|---|--|
| Increase/(decrease) in cash in year | 150,536 | (177,769) |
| Cash outflow from finance leases | 41,544 | 36,073 |
| | ----- | ----- |
| Change in net debt resulting from cash flows | 192,080 | (141,696) |
| Inception of finance leases | (41,640) | (106,390) |
| | ----- | ----- |
| Movement in net debt in the year | 150,440 | (248,086) |
| Net debt at 1 April 2005 | (191,360) | 56,726 |
| | ----- | ----- |
| Net debt at 18 March 2005 | (40,920) | (191,360) |
| | ===== | ===== |

22. ANALYSIS OF CHANGES IN NET DEBT

| | AT 1 APRIL 2004 (POUNDS) | CASH FLOW (POUNDS) | NON-CASH ITEMS (POUNDS) | AT 18 MARCH 2005 (POUNDS) |
|--------------------------|-----------------------------------|-----------------------|-------------------------------|------------------------------------|
| Cash at bank and in hand | 475,767 | (305,617) | -- | 170,150 |
| Overdrafts | (596,810) | 456,153 | -- | (140,657) |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|----------------|-----------|---------|----------|----------|
| | (121,043) | 150,536 | -- | 29,493 |
| Finance leases | (70,317) | 41,544 | (41,640) | (70,413) |
| | ----- | ----- | ----- | ----- |
| | (191,360) | 192,080 | (41,640) | (40,920) |
| | ===== | ===== | ===== | ===== |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

23. DISPOSALS

During the period the group disposed of its interest in Pascall Microwave Limited and Pascall Electronic Systems Limited. Group profits include (pounds) Nil earned by Pascall Microwave Limited and Pascall Electronic Systems Limited up to their date of disposal on 22 February 2005. The net assets/(liabilities) on the date of disposal were:

| | PASCALL MICROWAVE LIMITED (POUNDS) | PASCALL ELECTRONIC SYSTEMS LIMITED (POUNDS) |
|--------------------|---|---|
| Debtors | 796,699 | 2,205 |
| Creditors | (720,701) | (317,889) |
| | ----- | ----- |
| | 75,998 | (315,684) |
| Profit on disposal | 1 | 315,685 |
| | ----- | ----- |
| | 75,999 | 1 |
| | ----- | ----- |
| Satisfied by: | | |
| Cash | 75,999 | 1 |
| | ----- | ----- |

Pascall Microwave Limited and Pascall Electronic Systems Limited were dormant for the period ended 18 March 2005 and the year ended 31 March 2004 and therefore made no contribution to group cash flows.

Analysis of the net cash inflow of cash in respect of disposals during the period:

| | 2005 (POUNDS) | 2004 (POUNDS) |
|--------------------|------------------|------------------|
| Cash consideration | 76,000 | -- |
| | ===== | ===== |

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
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24. RETIREMENT BENEFITS

DEFINED CONTRIBUTION PENSION SCHEME

The group operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the group.

DEFINED BENEFIT PENSION SCHEME

On 18 March 2005, Intelek plc, the group's ultimate parent undertaking for the period to that date, undertook to meet Pascall Electronics Limited's proportion of the scheme deficit at that date. The potential liability has not yet been finalised by the scheme's actuaries, but it is not expected to exceed (pounds)800,000.

Since the period-end a sum in excess of this amount has been paid over to the Trustees of the scheme by Intelek plc to meet Pascall Electronics Limited's proportion of the deficit arising in the scheme. Furthermore the scheme trustees have given an undertaking discharging Pascall Electronics Limited from any further liability to the Scheme.

At 1 April 2004, the financial statements included a prepayment in respect of scheme contributions of (pounds)241,976 as required by SSAP 24. As at 18 March 2005 following agreement by Intelek plc to make up the shortfall for the elements of the scheme attributable to Pascall Electronics Limited, this prepayment was written off to the profit and loss account.

Full disclosures as required by SSAP 24 and FRS 17 transitional disclosures are given in the financial statements of Intelek plc.

PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
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25. FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

Capital expenditure commitments are as follows:

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18 MARCH 2005 31 MARCH 2004
(POUNDS) (POUNDS)

| | | |
|--|-------|-------|
| Contracted for, but not provided in the accounts | 712 | 1,188 |
| | ===== | ===== |

OPERATING LEASE COMMITMENTS

The payments which the group is committed to make in the next year under operating leases are as follows:

| | | |
|--|---------|---------|
| (i) Land and buildings, leases expiring beyond five years | 276,530 | 298,500 |
| | ===== | ===== |
| (ii) Other assets, leases expiring within one year | 5,334 | -- |
| one to five years | 5,705 | 8,054 |
| | ----- | ----- |
| | 11,039 | 8,054 |
| | ===== | ===== |

26. CONTINGENT LIABILITIES

The group has entered into foreign exchange commitments totalling (pounds)2,178,000 (2004: (pounds)1,539,000).

27. RELATED PARTY DISCLOSURES

The group has taken advantage of the exemption offered by FRS 8 not to disclose transactions with other group companies on the grounds that it is a wholly owned subsidiary and group accounts are publicly available from the registered office of the ultimate parent undertaking.

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PASCALL ELECTRONIC (HOLDING) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

28. ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Xcel Corporation Limited.

The company's ultimate parent undertaking was Intelek plc for the year ended 31 March 2004 and for the period to 18 March 2005. Intelek plc is a company incorporated in the United Kingdom.

At 18 March 2005, the company's ultimate parent undertaking changed from Intelek plc to Emrise Corporation, a company incorporated in the United States of America. The largest group of undertakings for which group accounts are drawn up is that headed by Emrise Corporation.

Copies of the consolidated financial statements of Emrise Corporation

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and Intelek plc are available from the registered office of the relevant company.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

29. SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA

The financial statements are prepared in conformity with accounting principles generally accepted in the United Kingdom ("U.K. GAAP") which differ in certain respects from accounting principles generally accepted in the United States of America ("U.S. GAAP").

The following is a summary of the significant adjustments to loss on ordinary activities and shareholders' funds when reconciling amounts recorded in the financial statements to the corresponding amounts in accordance with U.S. GAAP. There are no differences between turnover recorded in the financial statements and the corresponding amounts in accordance with U.S. GAAP.

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) | YEAR ENDED 31 MARCH 2004 (POUNDS) |
|--|--|--|
| Loss on ordinary activities under U.K. GAAP | (33,939) | (25,783) |
| U.S. GAAP adjustments: | | |
| Adjustments under SFAS No. 133-Derivatives (a) | 61,717 | (2,471) |
| Provision for compensated absences (b) | 2,781 | 1,338 |
| Adjustment to pension charge (c) | 169,383 | (59,483) |
| Elimination of gain on disposal of dormant subsidiaries (d) | (315,686) | -- |
| | ----- | ----- |
| Loss on ordinary activities under U.S. GAAP | (115,744) | (86,399) |
| | ===== | ===== |
| | 18 MARCH 2005 | 31 MARCH 2004 |
| Shareholders' funds under U.K. GAAP | 787,333 | 821,272 |
| U.S. GAAP adjustments: | | |
| Adjustments under SFAS No. 133-Derivatives (a) | 56,871 | (4,846) |
| Provision for compensated absences (b) | (15,991) | (18,772) |
| Elimination of pension asset (c) | -- | (169,383) |
| Elimination of dividend provision (e) | -- | 39,000 |
| Adjustment to record goodwill previously written off to group reserves (f) | 42,000 | 42,000 |
| | ----- | ----- |
| Shareholders' funds under U.S. GAAP | 870,213 | 709,271 |
| | ===== | ===== |

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The following table reflects the effects on balance sheet line items as a result of the adjustments listed above. The effects on shareholders' funds are reflected in the table above.

| | 18 MARCH 2005 | 31 |
|--|---------------|----|
| | (POUNDS) | |
| Debtors under U.K. GAAP | 1,871,930 | |
| U.S. GAAP adjustments: | | |
| Adjustments under SFAS No. 133-Derivatives (a) | 56,871 | |
| Elimination of pension asset (c) | - | |
| | ----- | |
| Debtors under U.S. GAAP | 1,928,801 | |
| | ===== | |
| Creditors: Amounts falling due within one year under U.K. GAAP | 3,395,842 | |
| U.S. GAAP adjustments: | | |
| Provision for compensated absences (b) | 15,991 | |
| Elimination of dividend provision (e) | - | |
| | ----- | |
| Creditors: Amounts falling due within one year under U.S. GAAP | 3,411,833 | |
| | ===== | |
| Goodwill under U.K. GAAP | - | |
| U.S. GAAP adjustments: | | |
| Adjustment to record goodwill previously written off to group reserves (f) | 42,000 | |
| | ----- | |
| Goodwill under U.S. GAAP | 42,000 | |
| | ===== | |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE
TWELVE MONTHS ENDED 31 MARCH 2004

(a) Adjustments under SFAS No. 133-Derivatives

Under U.K. GAAP, at each balance sheet date, monetary assets and liabilities denominated in a foreign currency may be translated at a forward rate where there are related or matching forward contracts in respect of trading transactions. Under U.K. GAAP the fair value of derivatives is not permitted to be recognised on the balance sheet. Under U.S. GAAP, Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments, requires the valuation of monetary assets and liabilities at their fair value. Changes in fair value are either reflected in current earnings or comprehensive income depending on the nature of the derivative.

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(b) Provision for compensated absences

Under U.K. GAAP, no provision is made for employee compensated absences. Under U.S. GAAP provision is made for the cost of employee's rights to compensated absences from work.

(c) Adjustment to pension charge and elimination of pension asset

The Intelek plc Group Defined Benefit Pension Scheme provided the same defined benefits to the employees of all companies within the group, including the company. The assets contributed by Intelek plc were available to provide benefits to employees of all companies within the group and were not segregated into separate accounts for each company nor were assets restricted in any way to limit the benefits provided to any one company within the group.

Intelek plc performed an actuarial calculation of the entire group's pension cost in accordance with SSAP 24, "Accounting for Pension Costs." In addition, the supplemental disclosure requirement of FRS 17, "Retirement Benefits," was presented on a group level. Intelek plc recorded a prepaid pension asset in accordance with the U.K. GAAP requirements that permit the recognition of an asset if the net periodic pension cost is less than the amounts the employer has contributed to the scheme. Intelek plc allocated a portion of this asset to the company based on an internal formula developed by Intelek plc, which resulted in a prepaid pension asset on the books of the company through 31 March 2004. The allocation of this asset was not based on actuarial data because separate actuarial computations were not performed for each company in the group. As described in Note 24, under U.K. GAAP, the company recorded a charge to write off the pension asset that was previously recorded under SSAP 24.

The characteristics of the scheme are similar to those of a multiemployer pension plan that provides defined benefits under U.S. GAAP. Under a multiemployer pension plan, the company would have been required under U.S. GAAP to recognize as net period pension cost the required contribution for the period, and any contributions due and unpaid would have been reflected as a liability of the company. U.S. GAAP would not have permitted the initial recording of the pension asset. Accordingly, the pension asset was eliminated at 31 March 2004 for U.S. GAAP presentation. Also, the charge to write off the pension asset recorded under U.K. GAAP in the period ended 18 March 2005 was reversed in the U.S. GAAP reconciliation.

(d) Elimination of gain on disposal of dormant subsidiaries

During the period ended 18 March 2005, the company reported an "exceptional item-gain on disposal of dormant subsidiaries" of (POUNDS)315,686 in its Consolidated Profit and Loss Account. Under U.K. GAAP, gains arising upon the disposal of a subsidiary undertaking to a related party may be recognised in the profit and loss account for the period. Under U.S. GAAP, gains arising upon the disposal of a subsidiary undertaking to a related party must be recognized directly in shareholders' funds and not included in the calculation of net profit and loss..

(e) Elimination of dividend provision

Under U.K. GAAP, for accounting periods beginning before 1 January 2005, dividends not approved for payment prior to the year-end may be provided for at the balance sheet date. Under U.S. GAAP, a dividend must be approved prior to the year-end in order for it to be recorded

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as a liability at the balance sheet date.

(f) Adjustment to record goodwill previously written off to group reserves.

For acquisitions prior to 1998, U.K. GAAP permitted goodwill arising on acquisitions to be written off directly to group reserves. Under U.S. GAAP, the amount of goodwill required to be recognised would be (pounds)42,000 at 18 March 2005 and 31 March 2004.

PRESENTATIONAL DIFFERENCES

BALANCE SHEET PRESENTATION

Under U.K. GAAP, assets in the balance sheet are presented in ascending order of liquidity.

Under U.S. GAAP, assets are presented in descending order of liquidity.

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PERIOD FROM 1 APRIL 2004 TO 18 MARCH 2005 AND THE TWELVE MONTHS ENDED 31 MARCH 2004

COMPREHENSIVE INCOME (LOSS)

The comprehensive loss under U.S. GAAP is the same as net loss under U.S. GAAP for all periods presented.

CASH FLOW STATEMENT

As permitted by Item 17 of Form 20-F, the following statements of cash flows were prepared in conformity with U.S. GAAP.

| | PERIOD ENDED 18 MARCH 2005 (POUNDS) ----- | YEAR ENDED 31 MARCH 2004 (POUNDS) ----- |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | (115,744) | (86,399) |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 283,131 | 287,038 |
| Gain on sale of property, plant and equipment | 2,628 | 20,044 |
| Deferred income taxes | (108,907) | (87,307) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (173,994) | (330,145) |
| Inventories | (438,218) | 126,596 |
| Accounts payable and accrued expenses | 811,015 | (100,551) |
| Other liabilities | -- | 51,137 |
| Cash provided by (used in) operating activities | 259,911 | (119,587) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net purchases of property, plant and equipment | (183,488) | (84,542) |

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| | | |
|--|-----------|----------|
| Proceeds from sale of property, plant and equipment | 39,657 | 62,433 |
| Proceeds from sale of investments in subsidiary | 76,000 | -- |
| Cash used in investing activities | (67,831) | (22,109) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| (Repayments) borrowings on bank overdraft | (456,153) | 469,284 |
| Repayments of capital lease obligations | (41,544) | (36,073) |
| Cash provided by (used in) financing activities | (497,697) | 433,211 |
| Net increase (decrease) in cash and cash equivalents | (305,617) | 291,515 |
| Cash and cash equivalents at beginning of period | 475,767 | 184,252 |
| Cash and cash equivalents at end of period | 170,150 | 475,767 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | 61,868 | 35,613 |
| Income taxes | -- | -- |
| Noncash transactions: | | |
| Purchase of equipment under capital lease | 41,640 | 106,390 |
| Conversion of payable to Intelek plc into equity | 315,684 | -- |
| | ===== | ===== |

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PASCALL ELECTRONIC (HOLDINGS) LIMITED AND ITS SUBSIDIARY UNDERTAKINGS
NOTES TO THE FINANCIAL STATEMENTS
PERIOD FROM APRIL 1, 2004 TO MARCH 18, 2005 AND THE
TWELVE MONTHS ENDED MARCH 31, 2004

RELATED PARTY DISCLOSURES

U.S. GAAP requires the disclosure of related party transactions. The following summarizes the related party balances and transactions for each period with Intelek plc, the ultimate parent undertaking for the period to 18 March 2005 and the year ended 31 March 2004:

| | AT 18 MARCH 2005 (POUNDS) ----- | AT 31 MARCH 2004 (POUNDS) ----- |
|---|--|--|
| Non-interest bearing payable to Intelek plc | 1,800,000 | 1,178,877 |

Of the (pounds)1,800,000 payable to Intelek plc at 18 March 2005, (pounds)200,000 is included in trade creditors in Note 14. The remaining (pounds)1,600,000 was replaced by debt payable to Xcel Corporation Limited, the company's immediate parent undertaking at 18 March 2005.

During the period ended 18 March 2005 Intelek plc charged the group (pounds)Nil (2004: (pounds)252,370) in respect of management charges.

On 22 February 2005 the group sold its interest in Pascall Microwave Limited and Pascall Electronic Systems Limited for cash consideration amounting to (pounds)76,000.

During the period ended 18 March 2005 Intelek plc converted payables amounting to (pounds)315,684 into equity.

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(b) Pro Forma Financial Information.

As described in Item 2.01 of this report, effective as of March 18, 2005, XCEL acquired all of the issued and outstanding capital stock of PEHL. The accompanying unaudited condensed consolidated statements of operations for the periods ended March 31, 2005 and December 31, 2004 are set forth herein to give effect to the acquisition of PEHL and Pascall as if the acquisition had been consummated at the beginning of the earliest period presented (January 1, 2004). A pro forma condensed consolidated balance sheet is not presented because the balance sheets of PEHL and Pascall and related purchase accounting adjustments were included in the financial statements included in Emrise's quarterly report on Form 10-Q for the three months ended March 31, 2005, as amended.

Emrise previously acquired, effective as of July 13, 2004, all of the issued and outstanding common stock of Larus Corporation. The accompanying unaudited condensed consolidated statements of operations for the year ended December 31, 2004 also give effect to the acquisition of Larus Corporation and Larus Corporation's subsidiary as if that acquisition had been consummated at January 1, 2004.

The acquisitions were accounted for under the purchase method of accounting in accordance with accounting principles generally accepted in the United States. Under this method, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their estimated fair values. The excess of the purchase price, plus estimated fees and expenses related to the acquisitions, over the fair value of net assets acquired are recorded as goodwill.

The unaudited pro forma condensed consolidated statements of operations do not reflect any potential cost savings that were or may be realized following the acquisitions. The pro forma adjustments and assumptions are based on estimates, evaluations and other data currently available and, in Emrise's opinion, provide a reasonable basis for the fair presentation of the estimated effects directly attributable to the acquisition and related transactions. The unaudited pro forma condensed consolidated statements of operations are provided for illustrative purposes only and are not necessarily indicative of what the consolidated results of operations or financial position would actually have been had the acquisitions occurred on January 1, 2004, nor do they represent a forecast of the consolidated results of operations or financial position for any future period or date.

All information contained herein should be read in conjunction with Emrise's annual report on Form 10-K for the year ended December 31, 2004, its quarterly report on Form 10-Q for the three months ended March 31, 2005, as amended, the consolidated financial statements and notes thereto of PEHL and subsidiary included in Item 9.01(a) of this Form 8-K and the notes to unaudited pro forma financial information included herein. The following pro forma financial information is included in this report:

Page

Pro Forma Condensed Consolidated Statements of Operations for
the Three Months Ended March 31, 2005.....F-1

Pro Forma Condensed Consolidated Statements of Operations for
the Year Ended December 31, 2004.....F-3

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EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
THREE MONTHS ENDED MARCH 31, 2005
(Dollars and Shares In Thousands, Except Per Share Data)

| | EMRISE | PEHL | PRO FORMA ADJUSTMENT | TOTAL |
|--|-----------|----------|-------------------------|-----------|
| | ----- | ----- | ----- | ----- |
| Net sales | \$ 7,299 | \$ 3,241 | \$ -- | \$ 10,540 |
| Cost of sales | 4,187 | 1,648 | -- | 5,835 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 3,112 | 1,593 | -- | 4,705 |
| Selling, general and administrative expenses ... | 2,831 | 1,070 | 3 (a) | 3,904 |
| Engineering and product development expenses ... | 532 | 359 | -- | 891 |
| | ----- | ----- | ----- | ----- |
| Income (loss) from operations | (251) | 164 | (3) | (90) |
| Total interest and other expense | (33) | -- | -- | (33) |
| | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes | (284) | 164 | (3) | (123) |
| Income tax expense | 66 | -- | -- | 66 |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ (350) | \$ 164 | \$ (3) | \$ (186) |
| | ===== | ===== | ===== | ===== |
| Loss per share - basic (b) | \$ (0.01) | -- | -- | \$ (0.01) |
| Loss per share - diluted (b) | \$ (0.01) | -- | -- | \$ (0.01) |
| Shares outstanding - basic | 36,788 | -- | 556 | 37,344 |
| Shares outstanding - diluted | 36,788 | -- | 556 | 37,344 |

(a) Amortization of intangible assets (technology and customer relationships) totaled \$3 for the quarter based on the following estimated values and service lives: trademarks - \$50 and 5 years.

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EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

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THREE MONTHS ENDED MARCH 31, 2005
(Dollars and Shares In Thousands, Except Per Share Data)

- (b) The following table summarizes the combined pro forma basic and diluted loss per share as if Emrise had acquired PEHL as of January 1, 2005:

| | EMRISE | PEHL | PRO FORMA ADJUSTMENT | TOTALS |
|---|-----------|--------|-------------------------|-----------|
| | ----- | ----- | ----- | ----- |
| Earnings (loss) per share | | | | |
| Numerator: | | | | |
| Net income (loss) attributable to common stockholders | \$ (350) | \$ 164 | \$ (3) | \$ (189) |
| Denominator: | | | | |
| Weighted average number of common shares outstanding during the period - basic | 36,788 | -- | -- | 36,788 |
| Additional weighted average common shares if private placement occurred at January 1, 2005 (considered necessary to acquire PEHL) | -- | -- | 556 | 556 |
| Adjusted weighted average shares | 36,788 | -- | 556 | 37,344 |
| Incremental shares from assumed conversions of warrants, options and preferred stock | -- | -- | -- | -- |
| Adjusted weighted average shares | 36,788 | -- | 556 | 37,344 |
| Loss per share - basic | \$ (0.01) | -- | -- | \$ (0.01) |
| Loss per share - diluted | \$ (0.01) | -- | -- | \$ (0.01) |

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EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND LARUS CORPORATION AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
YEAR ENDED DECEMBER 31, 2004
(Dollars and Shares In Thousands, Except Per Share Data)

| | EMRISE | LARUS CORPORATION | PEHL | PRO FORMA ADJUSTMENT | TOTALS |
|---------------------|-----------|----------------------|-----------|-------------------------|-----------|
| | ----- | ----- | ----- | ----- | ----- |
| Net sales | \$ 29,861 | \$ 2,625 | \$ 13,574 | -- | \$ 45,060 |
| Cost of sales | 16,146 | 1,260 | 10,659 | (60) (a) | 28,065 |

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| | | | | | |
|--|----------|--------|----------|-----------|-------|
| Gross profit | 13,715 | 1,365 | 2,915 | 60 | |
| Selling, general and administrative expenses | 10,226 | 682 | 3,285 | (15) | (a) |
| | -- | -- | -- | 40 | (b) |
| | -- | -- | -- | 10 | (c) |
| Engineering and product development ... expenses | -- | -- | -- | -- | |
| | 1,521 | 220 | 359 | -- | |
| | ----- | ----- | ----- | ----- | |
| Income (loss) from operations | 1,968 | 463 | (729) | 25 | |
| Interest expense | (433) | -- | (110) | (76) | (d) |
| | -- | -- | -- | (18) | (e) |
| | -- | -- | -- | 110 | (f) |
| Other expense, net | (6) | (2) | -- | -- | |
| | ----- | ----- | ----- | ----- | |
| Income (loss) before income taxes | 1,529 | 465 | (839) | 41 | |
| Income tax (benefit) expense | 49 | 181 | (355) | (7) | (g) |
| | ----- | ----- | ----- | ----- | |
| Net income (loss) | \$ 1,480 | \$ 284 | \$ (484) | 48 | \$ |
| | ===== | ===== | ===== | ===== | ===== |
| Earnings per share - basic (h) | \$ 0.06 | -- | -- | \$ (0.02) | \$ |
| Earnings per share - diluted (h) | \$ 0.06 | -- | -- | \$ (0.03) | \$ |
| Shares outstanding - basic (h) | 24,063 | -- | -- | 13,718 | |
| Shares outstanding - diluted (h) | 24,839 | -- | -- | 13,718 | |

-
- (a) Reduction of \$60 rent allocated to manufacturing overhead and \$15 allocated to selling and administration due to a recording of a liability in purchase accounting for an unfavorable lease in the Larus Corporation acquisition.
- (b) Amortization of Larus Corporation intangible assets (technology and customer relationships) totaled \$40 for the year based on the following estimated values and service lives: technology - \$500 and 10 years; customer relationships - \$300 and 10 years.
- (c) Amortization of Pascall intangible assets (trademarks) totaled \$10 for the year based on the following estimated values and service lives: trademarks - \$50 and 5 years.
- (d) Increase in interest cost of \$76 for long-term notes. The long-term notes for \$3,000 carry an interest rate of 30-day LIBOR plus 1.0% (average interest rate of 5.0% would have resulted in interest expense of \$76 for the additional six month period).
- (e) Increase of \$18 in working capital interest. Working capital interest is expected to be 5.0% of expected additional capital needs of approximately \$700 on an annual basis.
- (f) Decrease in interest cost of \$110 related to Pascall debt repaid as a result of acquisition.

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EMRISE CORPORATION AND PASCALL ELECTRONIC (HOLDINGS) LIMITED AND SUBSIDIARIES PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED) YEAR ENDED DECEMBER 31, 2004 (Dollars and Shares In Thousands, Except Per Share Data)

- (g) Income tax effect of additional income from the pro forma adjustments
 (h) The following table summarizes the combined pro forma basic and diluted earnings per share as if Emrise had acquired Larus Corporation and PEHL as of January 1, 2004:

| | EMRISE | LARUS CORPORATION | PEHL | PRO FORMA ADJUSTMENT | TOT |
|---|----------|----------------------|----------|-------------------------|-------|
| | ----- | ----- | ----- | ----- | ----- |
| Earnings per share | | | | | |
| Numerator: | | | | | |
| Net income (loss) attributable to common stockholders | \$ 1,480 | \$ 284 | \$ (484) | \$ 48 | \$ 1, |
| Denominator: | | | | | |
| Weighted average number of common shares outstanding during the period - basic | 24,063 | -- | -- | -- | 24, |
| Common shares issued to acquire Larus Corporation | -- | -- | -- | 1,214 | 1, |
| Additional weighted average common shares if private placement occurred at January 1, 2004 (considered necessary to acquire PEHL) | -- | -- | -- | 12,504 | 12, |
| Adjusted weighted average shares -basic | 24,063 | -- | -- | 13,718 | 37, |
| Incremental shares from assumed conversions of warrants, options and preferred stock | 776 | -- | -- | -- | |
| Adjusted weighted average shares | 24,839 | -- | -- | 13,718 | 38, |
| Earnings per share - basic | \$ 0.06 | -- | -- | \$ (0.02) | \$ 0 |
| Earnings per share - diluted | \$ 0.06 | -- | -- | \$ (0.03) | \$ 0 |

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- (c) Exhibits.

Number Description

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-
- 2.1 Agreement dated March 1, 2005 among Intelek Properties Limited, XCEL Corporation Limited, Intelek PLC and Emrise Corporation relating to the sale and purchase of the outstanding capital shares of Pascall Electronic (Holdings) Limited (1)
- 2.2 Supplemental Agreement dated March 18, 2005 among Intelek Properties Limited, XCEL Corporation Limited, Intelek PLC and Emrise Corporation (1)
- 2.3 Loan Agreement dated March 18, 2005 among XCEL Corporation Limited, Pascall Electronics Limited and Pascall Electronic (Holdings) Limited (1)
-

(1) Filed as an exhibit to the initial filing of this Form 8-K.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 13, 2005

EMRISE CORPORATION

By: /S/ CARMINE T. OLIVA

Carmine T. Oliva, Acting Chief
Financial Officer

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